Understanding and surviving Amazon’s retail revolution

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“Amazon is working hard to sell more food and groceries, but their end game is much bigger. They are working to build and then control a new direct-to-home retail/distribution system,” Bill Bishop, Chief Architect of Brick Meets Click told PLMA 2017 attendees November 12. That’s the bottom line takeaway from a just completed Brick Meets Click assessment of how Amazon’s growth over the next 3 to 5 years will impact grocery and what retailers and suppliers are going to need to do about it. His presentation, The Amazon Revolution: The shot heard around the world, was delivered at PLMA’s 2017 Private Label Trade Show in Chicago.

The new Brick Meets Click assessment organizes Amazon’s recent initiatives into a framework that makes it easier for grocery industry players to understand what Amazon is doing and decide how to respond. The framework outlines six major building blocks that Amazon is putting together to reach their long-term goal. Here’s a quick overview.

1. **Expanding awareness** – Amazon advertises the features and benefits of its own ecosystem vs. just the products it sells, which drives stronger and more frequent connections. Also, by controlling the information flow about their innovations, they are effectively influencing the narrative that drives how we all think about Amazon’s role in the market and shopper’s lives.
2. **Accelerating sales growth** – With the help of a strong price reputation, relentless customer-centricity, constant innovation, and the growth of Prime, Amazon continues to grow household penetration. Per the latest Brick Meets Click shopper study, Amazon’s share of active monthly online grocery shoppers has reached 53% (expressed as percent of households), up more than 4 percent points from 2015.
3. **Building satisfaction** – Amazon’s focus on continuous improvement has expanded now to include both the online and in-store shopping experiences as a means of becoming even more customer-centric. The value and satisfaction Amazon delivers can be demonstrated when parents of young children can’t imagine how other parents survived before Amazon.

4. **Completing the last mile** - The last mile has always been challenging. Amazon continues to invest in new options and innovations to test solutions that systematically eliminate roadblocks and make it easier to receive products – from lockers, to partnerships with other retailers such as Kohls, to the just released Amazon Key.

5. **Reinventing the store** - The store of the future will need to feature new processes that improve retail performance. Today’s activities in Amazon’s bookstore, AmazonGo, and the Amazon Pickup location service are windows into possible future plans with Whole Foods and its 450+ locations and physical access to about 80% of the US population.

6. **Leading the battle for the home** – The introduction and marketing of the expanding capabilities of Alexa, Amazon’s voice-activated digital assistant, are on the front line of the race to winning households’ "share of attention" as most homes will only have one smart system for managing their lives – and that includes shopping.

**What does this mean for the grocery business?** “Amazon is an awesome online competitor, but they have not yet figured out food and grocery. That’s one reason they bought Whole Foods,” said Bishop. Whole Foods, however, is only part of the picture – what they do with that business will say a lot about where the growth opportunities are for other grocery retailers and suppliers, both national brands and “next gen” private label.

Today, the largest share of online grocery spending goes to supermarkets at 31% per the 2017 Brick Meets Click benchmark study, but others are close behind – online delivery platforms like Peapod and Fresh Direct are at 25%, and Amazon (excluding AmazonFresh) has 20%. While supermarkets as a group are in the lead, the concern is that Amazon is well-positioned to grow by building on their strengths, catering directly to different types of shopping occasions, and attracting a greater share of spending by leveraging Prime relationships and services.

To create sustainable businesses in an Amazon-dominant world, “It will be critical for grocers and supplier to do two things simultaneously – first, address their vulnerabilities, and second, find ways to
leverage their strengths, such as long-term relationships, into increased spending online by playing on the strength of their fresh platform and personalized service,” counseled Bishop.

**About Brick Meets Click**

Brick Meets Click was co-founded by Bill Bishop and Steve Bishop and has been deeply engaged in two areas since 2011: tracking the way digital technology is changing the shopping experience, and developing frameworks for how retailers and manufacturers can respond to drive new sources growth. Visit [brickmeetsclick.com](http://brickmeetsclick.com) to learn more about our expertise and offerings.